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RUEHJO/AMCONSUL JOHANNESBURG 6512  
RUEHTN/AMCONSUL CAPE TOWN 4181  
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SIPDIS

DEPT FOR AF/S/MTABLER-STONE; AF/EPS; EB/IFD/OMA  
USDOC FOR 4510/ITA/MAC/AME/OA/DIEMOND  
TREASURY FOR OAISA/RALYEA/CUSHMAN  
USTR FOR COLEMAN

SIPDIS

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SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER APRIL 13, 2007  
ISSUE

11. (U) Summary. This is Volume 7, issue 15 of U.S. Embassy Pretoria's South Africa Economic News weekly newsletter.

Topics of this week's newsletter are:

- SARB Holds Interest Rate Steady
- Treasury Provides Bail-Out for SAA
- SAA to Buy More Planes
- Mbeki Takes a Swipe at Telkom
- Denel Faces Hard Times
- Unemployment Rate Improves, But in Low Wage Jobs
- February Inflation Better Than Expected
- SA Government Rejects Planting of GM Maize

End Summary.

SARB Holds Interest Rate Steady

12. (U) The Monetary Policy Committee (MPC) of the South African Reserve Bank (SARB) left the repo rate unchanged at its meeting of April 11. The MPC cited lower inflationary expectations, a stable rand, and a positive global inflation outlook as reasons for its decision. It noted, however, that oil prices and food prices remain of concern, household consumption expenditure poses a risk of inflation, and consumer confidence remains at high levels. After reviewing the mixed inflation picture, the MPC stated that it "has decided that despite the slight deterioration in the inflation outlook, an unchanged monetary stance continues to be appropriate for now." The decision was in line with market expectations. SARB Governor Tito Mboweni said that the MPC should wait to see the full impact of its 200 basis point hike in 2006 before it acts again. (Business Day, April 13)

Treasury Provides Bailout for SAA

13. (U) The SA government announced on April 2 that it had decided to provide a guarantee of 1.3 billion rand (\$178 million) to state-owned South African Airways (SAA) in what the Department of Public Enterprises has called, "the first tranche of a recapitalization process." The announcement means that SAA CEO Khaya Ngqula and Public Enterprises Minister Alec Erwin have been able to overcome opposition in the Department of Treasury, which had been reluctant to provide a bail-out. SAA is expected to report losses of 650 million rand (\$88.8 million) for last year and says it needs more than 4 billion rand (\$570 million) to restructure properly. This follows more than 6 billion rand of guarantees that

were provided in 2003 when the SAA's hedge book went sour. The restructuring includes a comprehensive review of SAA's routes which led to the postponement of the proposed May 9 launch of a new route between Johannesburg and Chicago. The restructuring may also include the break-up of the airline into various operating businesses. (Business Day, April 3.)

#### SAA to Buy More Planes

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¶4. (U) SAA is also moving ahead with its fleet planning process which will result in a decision on which types of aircraft need to be purchased for 2009, 2010 and beyond. A large tender to purchase up to 20 Boeing or Airbus aircraft is expected to be issued in August. SAA has a mixed Boeing/Airbus fleet, but the most recent purchases have been from Airbus. A purchasing decision needs to be made by mid-2007 if the new planes are to arrive before the 2010 FIFA World Cup. Boeing and Airbus production lines are both full and it will be difficult for either manufacturer to deliver new aircraft prior to 2010 even in the best of conditions. (Business Day, April 4, 2007)

#### Mbeki Takes a Swipe at Telkom

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¶5. (U) President Mbeki accused state telecommunications company Telkom in a Financial Times article of "profiteering" from the exorbitant rates it charges on the Sat-3 undersea cable which connects SA with Europe and Asia. Mbeki described the rates as "absolutely phenomenal" and said that a range of "interventions" were being put in place to reduce phone charges. These interventions include building a new, and far larger, fiber optic cable along the west coast. Another intervention is the licensing

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of Neotel, a private telecommunications company which is already providing competition in the provision of wholesale services and hopes to provide retail services to companies and individual consumers later this year. Another state-owned company, Infraco, is expected to compete with the provision of internet bandwidth space later this year. Yet another intervention would be to persuade Telkom to provide special rates to potential call centers. Mbeki said the SA government had been talking to Telkom about the establishment of call centers, but SA was still not attracting call centers due to the high cost of telecommunications. Mbeki's complaints about high telecommunications costs are part of a broader concern about microeconomic issues that create obstacles to higher rates of economic growth, an issue he has mentioned in his state of the nation addresses. Telkom CEO Papi Molotsane announced his unexpected resignation on April 5. (Business Day, April 3, 2007, Business Report, April 4, 2007 and Business Times, April 8, 2007)

#### Denel Faces Hard Times

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¶6. (U) Embattled state arms manufacturer Denel was passed over for a 2 billion rand (\$273 million) contract to supply the Turkish army with 50 attack helicopters, a deal that was seen as critical to the company's turnaround efforts and the survival of its Rooivalk attack helicopter. The contract went instead to Italy's Agusta Aerospace. Agusta's Al29 Mangusta helicopter is considered to be technologically superior to the Rooivalk and it will become increasingly difficult for Denel to market the Rooivalk as its technology becomes more dated. Denel spokesman Sam Basch said on April 2 that Denel was trying to sell more Rooivalks to the SA Air Force, which is the only entity that has ever purchased the helicopter, having purchased 12 in 1999. Denel CEO Shaun Liebenberg said that he was confident the company would be turned around in the next four years and that the company had managed to reduce its losses from 1.6 billion rand (\$218 million) in FY2004-05 to 1.4 billion rand (\$191 million) in FY2005-06. Denel recently received a 2 billion rand (\$273 million) cash injection from the government and has asked the government to recapitalize it with an additional 5 billion rand (\$683 million). (Business Day, April 3-4, 2007)

Unemployment Rate Improves, But in Low Wage Jobs

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17. (U) The unemployment rate for the year up to September 2006 showed a slight decrease, according to the findings of the Labor Force Survey (LFS) released this week. The LFS is a twice-yearly household survey specifically designed to measure the labor market. The number of unemployed persons dropped from 4.4 million in September 2005 to 4.3 million in September 2006, which correspondingly reduced the unemployment rate from 26.7 percent in September 2005 to 25.5 in September 2006. The results also showed that the number of employed people increased from 12.3 million in September 2005 to 12.8 million in September 2006. The decreases in the unemployment rate took place despite an increase in the labor force from 16.7 million to 17.1 million.

18. (U) Although the LFS indicates unemployment rates improved, Miriam Altman, the Executive Director of the Human Science Research Council's (HSRC) Employment, Growth and Development Initiative, said the HSRC's key findings showed that the economy was creating large numbers of low-skilled and poorly paid jobs mostly in the service sector. Altman claimed that to bring the jobless rate to 15% by 2014, the private sector would have to create 500,000 jobs per year, with the public sector contributing a further 600,000 jobs. To achieve this, an economic growth rate of 6% and a job growth rate of 4% would be needed over a 10-year period. The economy is currently creating between 100,000 and 300,000 jobs per year. The problem is that even though job creation has been consistently positive with an average growth rate of 1% per year since 1995, the population has been growing at 2.8% per year. COSATU trade union Policy Coordinator Rudi Dicks said there are approximately 300,000 to 350,000 new entrants to the labor market each year, meaning that job creation will fall short of the government's ASGISA goal of reducing unemployment by half by 2014. Deputy President Phumzile Mlambo-Ngcuka acknowledged that while the prospects for economic growth looked brighter, "sufficient employment creation remains the most crucial and most difficult ASGISA objective." The good news is the economy is currently growing at 5% per year for the third straight year and appears to be on track to achieve 6% growth by 2010. (Mail & Guardian, March 30 to April 4, 2007)

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#### February Inflation Better Than Expected

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19. (U) February's CPI was at 5.7% year-on-year compared to 6% in January. The CPIX inflation dropped from 5.3% to 4.9%. The decline is attributed to the decrease in fuel prices during February. Food price inflation, especially in grain products, continued to be high at 8% in February, compared to 8.6% in January. CPIX less fuel inflation was 5% in February, and CPIX less food inflation was 3.9% compared with 4.2% in January. Food inflation is expected to increase in the next few months due to grain crop failures from drought conditions.

#### SA Government Rejects Planting of GM Maize

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10. (U) The Department of Agriculture's Executive Council, which regulates Genetically Modified (GM) organisms, has rejected a seed company's application to grow GM maize in South Africa for the bio-fuel industry. US biotechnology company Syngenta wanted to plant "Maize Event 3,272," known as the first industrial GM maize in the world, but failed to convince the SA government that the maize was safe for food or animal feed. Executive Council Chairman Julian Jaftha said that they were concerned that the Event 3,272 maize could mix with maize intended for food. The Council also stated that Syngenta did not use the World Health Organization's (WHO) evaluation methods to test for allergens. The African Biosafety Center, a watchdog organization monitoring the GM industry, announced support for the government's decision. (Cape Times, March 29, 2007)

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